

Rural Telephone Bank
Minutes of the 154th Board Meeting
August 4, 2005

Time and Place of Meeting

The 154th meeting of the Board of Directors (Board) of the Rural Telephone Bank (Bank) was held Thursday, August 4, 2005, in Conference Room 104-A, U.S. Department of Agriculture, Washington, D.C., pursuant to a notice published in the Federal Register on July 22, 2005. Chairman Thomas Dorr called the meeting to order at 9:01 a.m.

Attendants

Directors present were: Thomas Dorr, Gilbert Gonzalez, Clay Davis, James House, Tim Ryan, Roberto Salazar (via phone), Curtis Sampson, Michael Jensen, David Crothers, Larry Sevier, and Kent Rodgers.

Directors absent were: Christine Olsen and John McAllister.

Among others present were Acting Governor and Deputy Governor Curtis Anderson (via phone), Acting Assistant Governor and Assistant Secretary Jonathan Claffey and Assistant Treasurer Kenneth Ackerman as well as Terence Brady, Georgann Gutteridge, and David Grahm from the Office of the General Counsel.

Action on the Minutes

On motion duly made and seconded, the minutes of the May 5, 2005, board meeting were adopted.

Resolution Related to Liquidation of the Bank

On a motion duly made and seconded, the following resolution was unanimously adopted:

Resolution 2005-8

WHEREAS, the Board of Directors (the "Board") believes it is in the best interests of the Rural Telephone Bank ("Bank") and rural telecommunication subscribers to transfer the Bank's loan portfolio to the Rural Utilities Service ("RUS") and to liquidate and dissolve the Bank pursuant to Section 411 of the Rural Electrification Act ("Act,") 7 U.S.C. § 901 *et seq.*;

WHEREAS, the liquidation and dissolution of the Bank cannot be consummated until Section 713 of the *Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2005* (Pub. L. 108-447, 118 Stat. 2804) (the "Appropriations Act") ceases to be effective, thus removing the five percent (5%) cap on the redemption of the Bank's Class A Stock, and such cap is not reinstated; and

WHEREAS, the liquidation and dissolution of the Bank also require the retirement or payment of the Bank's Class A, Class B, and Class C Stock pursuant to Section 411 of the Act;

THEREFORE, IT IS HEREBY RESOLVED BY THE BOARD:

1. Approval of Liquidation and Dissolution of the Bank. That the Board approve the liquidation and dissolution of the Bank in accordance with Section 411 of the Act, subject to there being no legal restriction on the redemption of Class A Stock.

2. Transfer of Certain Bank Assets to RUS. That the Bank's Liquidating Account loan portfolio and records be transferred to the United States of America, acting through the RUS, pursuant to the terms of the Loan Transfer Agreement, substantially in the form attached hereto.

3. Authorization to Sign Transfer Agreement. That the Chairman of the Bank be authorized on behalf of the Bank to execute and deliver as many counterparts of the Loan Transfer Agreement as he deems necessary or desirable.

4. Bank to Conduct No Further Business. That upon effectiveness of the Loan Transfer Agreement on October 1, 2005, the Bank will conduct no further business, except that which is necessary to document loans approved during FY 2005, to liquidate the Bank's assets, and to wind up its affairs.

5. Retirement and Payment of Bank's Stock. That the Board approve the retirement or payment of the Bank's Class A, Class B, and Class C Stock with funds in the Liquidating Account pursuant to Section 411 of the Act, subject to there being no legal restriction on the redemption of the Class A Stock.

6. Amendment of Section 2.3 of Bylaws. That Section 2.3 of the Bylaws be amended and restated in its entirety to read as follows:

Section 2.3 SHARE CERTIFICATES.

(a) *All shares of stock of the Bank shall be evidenced by entry on the books of the Bank. All paper stock certificates issued by the Bank are cancelled as of October 1, 2005, and replaced by entry on the books of the Bank.*

(b) *The Bank shall issue stock only upon payment in full of the par value thereof.*

(c) *The Bank shall issue stock evidencing the distribution of patronage refunds as hereinafter provided.*

7. Amendment of Section 2.4 of Bylaws. That Section 2.4 of the Bylaws be amended and restated in its entirety to read as follows:

Section 2.4 TRANSFER OF SHARES. Shares in the capital stock of the Bank shall be transferred only on the books of the Bank by authorization from the holder thereof or by the holder's legal representative upon proof of the legal representative's authority filed with the Secretary of the Bank. The entity in whose name shares stand on the books of the Bank shall be deemed to be the owner thereof for all purposes.

8. Determination of Record Date. That the record date for determination of stockholders and stockholdings for purposes of payments made pursuant to Section 411 of the Act and for fixing the number of private sector and public sector directors on the Board during the liquidation phase of the Bank shall be October 1, 2005; no stock conversions, purchases, or transfers subsequent to said date shall be recorded on the Bank's books.

9. Stockholders to Receive Stock Redemption Agreement. That from thirty (30) to sixty (60) days from the date there ceases to be restrictions on the redemption of Class A Stock, all record stockholders of Class B and Class C Stock shall be sent a Stock Redemption Agreement in substantially the form attached hereto.

10. Authorization to Sign Stock Redemption Agreement. That the Chairman be authorized on behalf of the Bank to execute and deliver as many counterparts of the Stock Redemption Agreements as required with such changes as he deems advisable, and to evidence his signature thereon by facsimile.

11. Authorization of Bank to Make Stock Redemption Payments. That commencing from one hundred twenty (120) days to one hundred eighty (180) days from the date there cease to be any restriction on the redemption of Class A Stock, stock redemption payments shall be made in accordance with Section 411 of the Act to the Government, pursuant to the Loan Transfer Agreement, and to those stockholders who have returned a validly executed Stock Redemption Agreement, pursuant to the terms of the Stock Redemption Agreement.

12. Disputed Claims and Unredeemed Shares. That the Governor be authorized to withhold payment of disputed claims and to take such action with respect to disputed claims and unredeemed shares as he may determine with the advice of counsel.

13. Use of Remaining Funds. That two (2) years from the date there ceases to be any restrictions on the redemption of Class A Stock, any funds remaining in the Liquidating Account, after the payment of all of the Bank's liabilities, redemption of all of the Bank's Class A, Class B, and Class C Stock, and set-aside of amounts held for disputed claims and unredeemed shares, be distributed to the Class A and Class B stockholders in accordance with Section 411 of the Act.

14. Closing Audit and Final Report. That thirty (30) months after the date there ceases to be any restriction on the redemption of Class A Stock, the Bank shall obtain a closing audit and submit a final report to the Board.

15. Other Actions. That, in the name and on behalf of the Bank, each of the Chairman, Governor, and Assistant Secretary be authorized to execute all such agreements, amendments, or documents, including those documenting loans approved by the Bank prior to October 1, 2005; make all such assignments and payments; and do all such other acts as in the opinion of the officer or officers acting may be necessary or appropriate in order to carry out the purposes and intent of the foregoing resolutions.

16. Publication in Federal Register. That these resolutions be immediately published in the Federal Register and any such other places as the Asst. Secretary of the Bank considers appropriate.

Resolution to retire Class A stock

On a motion duly made and seconded, the following resolution was adopted:

Resolution No. 2005-6

WHEREAS, Section 406(c) of the Rural Electrification Act of 1936, as amended, provides, in part, that:

Class A stock shall be redeemed and retired by the telephone bank as soon as practicable after September 30, 1995, but not to the extent that the Telephone Bank Board determines that such retirement will impair the operations of the telephone bank: Provided, That the minimum amount of class A stock that shall be retired each year after said date shall equal the amount of class B stock sold by the telephone bank during such year...;

and

WHEREAS, the United States Government purchased a maximum amount of \$592.1 million of Class A stock of the Rural Telephone Bank (Telephone Bank); and

WHEREAS, for the past eight consecutive years, the Telephone Bank has repurchased \$203.8 million of its Class A stock, leaving \$388.3 million outstanding; and

WHEREAS, the Consolidated Appropriations Act, 2005 provides that in fiscal year 2005 no more than five percent of the Class A stock of the Telephone Bank may be retired: an amount equal to approximately \$19.4 million and

WHEREAS, the Telephone Bank Board has received and had explained to it the attached study entitled *Retirement of Class A Stock of the Rural Telephone Bank*, which demonstrates that the Telephone Bank has sufficient funds to retire \$19.4 million of Class A stock without impairing the Telephone Bank's operations (see attachment); and

THEREFORE, BE IT RESOLVED, the Telephone Bank Board determines that the retirement of \$19.4 will not impair the operations of the Telephone Bank based on the attachment; and

RESOLVED, That for fiscal year 2005 the Telephone Bank Board directs that the maximum amount (\$19.4 million) of Class A stock be retired prior to October 1, 2005.

Resolution to Set Annual Class C Stock Dividend Rate

On a motion duly made and seconded, the following resolution was adopted:

Resolution No. 2005-7

WHEREAS, it is the responsibility of the Board of Directors to annually review and declare the Class C stock dividend; and

WHEREAS, the dividend by law may not exceed the average interest rate on the Rural Telephone Bank debt due to Treasury which is presently 6.07 percent; and

NOW, THEREFORE BE IT RESOLVED, That a 6.0 percent annual dividend rate be declared on the Class C stock of the Rural Telephone Bank payable December 2005 to the Class C stockholders of record during fiscal year 2005 on the basis of one-twelfth of the annual dividend for each full month, or portion of a month, the stock was held during fiscal year 2005.

Secretary's Report

Secretary Curtis Sampson reported that the Bank approved two loans totaling \$3.6 million during the third quarter of fiscal year 2005.

Treasurer's Report

Assistant Treasurer Ken Ackerman reported on the finances of the Bank for the third quarter of fiscal year 2005. Mr. Ackerman reported, among other things, that net revenue for the quarter totaled \$22 million, compared to \$24 million one year ago; total class B stock, net of conversions to C stock, amounted to \$533 million, an increase of \$11 million, and total class C stock increased to \$855 million. Advances on loan commitments for the quarter totaled \$6 million, compared to \$16 million for last year, and unadvanced loan commitments totaled \$1,188 million.

Stockholder Meeting

It was noted that the Bank was scheduled for its regular biennial stockholders meeting in November. This notation served as notice of the potential for the meeting if it was determined to be necessary.

Adjournment

Whereupon motion to adjourn was made, and the meeting was adjourned at 9:24 a.m.

Secretary